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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268–0001

ANNUAL COMPLIANCE REVIEW, 2014	Docket No. ACR2014

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO QUESTIONS 1-6, 8, 10, 12-13 AND 15-22 OF CHAIRMAN'S INFORMATION REQUEST NO. 2

The United States Postal Service hereby provides its responses to the above-listed questions of Chairman's Information Request No. 2, issued on January 16, 2015. Each question is stated verbatim and followed by the response. The responses to Questions 7, 9, 11, and 14 are still being prepared.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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1. Please confirm that Library Reference USPS-FY14-4 File "FY 2014 Periodicals.xls" tab "Total FY 2014" columns M and N (Units and Postage for all of FY 2014) should include the quarter 4 volume and revenue information in columns K and L. If not confirmed, please explain. If confirmed, please update this file to reflect quarter 4 volume and revenue.

RESPONSE:

Confirmed. A revised spreadsheet, *RespCHIR2Qu1.xlsx*, is being submitted with this response as part of USPS-FY14-44. The revised spreadsheet also includes other changes (highlighted in yellow) that reflect minor corrections to RPW numbers that were incorrectly transcribed during the preparation process.

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2. Please provide the quarterly discount thresholds for contract year 1 for the PHI Negotiated Service Agreement (NSA).

RESPONSE:

The quarterly discount thresholds for contract year 1 for the PHI NSA are as follows:

July – Sept	59.6M
Oct – Dec	49.6M
Jan – Mar	36.8M
Apr – June	43.1M

3. Please provide PHI volumes for FY 2014 by quarter.

RESPONSE:

Subsequent to Commission approval of the PHI NSA, there was only one FY 2014 fiscal quarter in which the contract was performed. The following are the PHI volumes for FY 2014 for that quarter (July – Sept 66.4M).

4. Please confirm that, using the accepted method for analysis, the PHI NSA had a negative financial result in contract year 1, quarter 1 of -$128,090.

RESPONSE:

Confirmed, using the methodology specified in the question.

5. In its FY 2014 ACR, the Postal Service stated:

> The Potpourri NSA was implemented in Q4 of FY 2014. During the period July 2014 through September 2014, Potpourri had NSA volume of 66.4 million pieces, after-rebate revenue of $15.8 million, and attributable costs of $11.2 million, resulting in attributable cost coverage of 141 percent. The volume-based agreement earned a rebate of approximately $175,000 during the July 2014 to September 2014 period. The Commission reviews NSAs from a contract year perspective, and it focuses on the net benefit of an NSA to the Postal Service. 2014 ACR at 37-38.

a. Please confirm that the PHI NSA has independent rebate thresholds for each quarter.

b. Please confirm that PHI could receive rebates for the contract year while having annual volume below the aggregate of the 4 quarter (annualized) rebate threshold.

c. Please discuss the advantages and disadvantages of reviewing the PHI NSA quarterly, annually, or both.

RESPONSE:

a. Confirmed.

b. Under the terms of the NSA, a scenario in which volume patterns are such that PHI would potentially receive rebates for the contract year while having annual volume below the aggregate of the Quarter 4 (annualized) rebate threshold is highly unlikely. Even in such rare circumstances, the Quarter 4 rebate is available as a tool to reconcile the rebates paid in previous quarters with the actual annual volume, thus eliminating the possibility of the result hypothesized in the question.

c. Given the reconciliation process undertaken at the end of Quarter 4, meaningful review needs to be conducted on an annual basis.

6. The following table contains the Postal Service's projection of FY 2014 financial results from Docket No. R2013-11 and the FY 2014 financial results from the FY 2014 Cost and Revenue Analysis. The Docket No. R2013-11 data are from the file Nick.Statment.Attach.Rev.11.22.13, tab "Attach 25 2014 Cont AR 1-26." This tab shows a projection of financial results given a January 26, 2014, implementation of the Consumer Price Index and exigent prices.

Nick.Statmnt.Attach.Rev.11.22.13								
	Volume	Revenue	Attributable Cost	Contribution	Cost Coverage	Revenue Per Piece	Cost Per Piece	Contribution Per Piece
	(Millions)					(Dollars)		
Market Dominant Mail								
All	149,932	$ 51,243	$ 27,162	$ 24,080	188.7%	$ 0.342	$ 0.181	$ 0.161
Standard Mail								
Carrier Route	9,517	$ 2,504	$ 1,707	$ 797	146.7%	$ 0.263	$ 0.179	$ 0.084
Flats	5,516	$ 2,228	$ 2,416	$ (188)	92.2%	$ 0.404	$ 0.438	$ (0.034)
Periodicals								
Outside County	5,533	$ 1,602	$ 1,984	$ (382)	80.7%	$ 0.290	$ 0.359	$ (0.069)
FY 2014 CRA								
Market Dominant Mail								
All	151,927	$ 49,530	$ 26,874	$ 22,656	184.3%	$ 0.326	$ 0.177	$ 0.149
Standard Mail								
Carrier Route	8,980	$ 2,364	$ 1,686	$ 678	140.2%	$ 0.263	$ 0.188	$ 0.076
Flats	5,054	$ 2,037	$ 2,497	$ (460)	81.6%	$ 0.403	$ 0.494	$ (0.091)
Periodicals								
Outside County	5,459	$ 1,552	$ 2,048	$ (496)	75.8%	$ 0.284	$ 0.375	$ (0.091)

a. Please confirm that in Docket No. R2013-11, the Postal Service projected that, with January 2014 implementation of exigent prices, the FY 2014 cost coverage for Standard Mail Flats would be 92.2 percent. Please confirm the actual cost coverage for Standard Mail Flats in FY 2014 was 81.6 percent, 10.6 percent lower than projected in November of 2013. If not confirmed, please explain.

b. Please confirm that in Docket No. R2013-11, the Postal Service projected that, with January 2014 implementation of exigent prices, the FY 2014 cost coverage for Periodicals would be 80.7 percent. Please confirm the actual cost coverage for Periodicals Outside County in FY 2014 was 75.8 percent, 4.9 percent lower than projected in November of 2013. If not confirmed, please explain.

c. Please discuss the divergence between the projected cost overages and the realized cost coverages for Standard Flats and Periodicals Outside County for FY 2014.

RESPONSE:

a. Confirmed.

b. Confirmed.

c. Cost coverages, both actual and projected, reflect the impact of both unit costs and unit revenues, which, helpfully, are both displayed in the table presented with the question. And the story they tell is somewhat different for each of the two categories (Standard Mail Flats and Outside County Periodicals). Examining Periodicals, we see that not only did actual unit costs exceeded projected unit costs (37.5 cents versus 35.9 cents), but actual unit revenues fell short of projected (28.4 cents versus 29.0 cents). If actual unit revenues had instead exactly met projections, the cost coverage would have been 77.3 percent (29.0/37.5) rather than 75.8 percent (28.4/37.5). In other words, roughly one-third of the total cost coverage shortfall of 4.9 percentage points identified in the question was a result of the unit revenue shortfall, and thus only approximately two-thirds was the result of higher unit costs. Explanatory factors to be explored therefore, should include both cost and revenue factors. Cost factors are being addressed in other contexts (e.g., responses to Questions 7 and 22 of this Information Request). With respect to factors affecting unit revenues, a slight decrease in average weight per piece and migration to a slightly finer level of presortation may explain the small gap between projected and actual.

The situation with respect to Standard Mail Flats, however, is much more one-sided. It is true that, once again, both a shortfall in unit revenues and an excess of unit costs played a role in the overall Standard Mail Flats cost coverage shortfall of 10.6 percentage points. But their relative contributions were markedly different from the relative contributions with respect to Periodicals. With Flats, the unit revenue shortfall was the minimum (40.3 cents actual versus 40.4 cents projected), but the overrun in unit costs was very much higher (49.4 cents actual versus 43.8 cents projected). In other words, the real explanation of the Standard Mail Flats cost coverage disparity must be found in the factors associated with the rise in FY 2014 Standard Mail unit costs, which is being addressed in other contexts (e.g., responses to Questions 8, 9, and 22 of this Information Request).

8. The following table details the productivity of incoming operations for the major equipment used to process flat-shaped mail. The data is from Library Reference USPS-FY14-23, file yrscrub.xls. Workbook No. 1 attached to this CHIR contains the source data and calculations for this table.

Flats Processing Equipment Productivity (TPF/Hour)										
	2007	2008	2009	2010	2011	2012	2013	2014	2007 to 2014	2009 to 2014
AFSM100 Incoming Secondary	3,096	3,273	3,138	2,998	2,898	2,692	2,725	2,685	-13%	-7%
SPBS/APBS Incoming	265	252	224	208	201	220	232	219	-17%	9%
APPS Incoming	548	498	451	430	397	361	350	319	-42%	-20%
FSS					833	816	798	766		

a. Please confirm that the productivity of the Automated Flats Sorting Machine (AFSM) 100 Incoming Secondary operation decreased 13 percent from FY 2006 to FY 2014. If not confirmed, please explain.

b. Please confirm that the productivity of the Small Parcel Bundle Sorter (SPBS)/Automated Parcel Bundle Sorter (APBS) incoming operation decreased 17 percent from FY 2006 to FY 2014. If not confirmed, please explain what year was the APBS upgrade from the SPBS completed?

c. Please confirm that the productivity of the APPS Incoming operation decreased 42 percent from FY 2006 to FY 2014. If not confirmed, please explain.

d. Please confirm that the productivity of the FSS operation decreased 8 percent ((766/833)-1) from FY 2011 to FY 2014. If not confirmed, please explain.

e. It appears that the mechanized productivity for processing flat mail has systemically declined during the Postal Accountability Enhancement Act era. Please describe the changes in operations that have led to these systemic declines.

RESPONSE:

Please note that while the table accompanying the question correctly reports the productivities for the listed operations, the percent change calculation in the column labeled "2009 to 2014" is actually the change from FY2011 to FY2014. The table below shows the correct percentage changes by period.

Changes in productivity for selected flats processing operations

Operation	FY2007 to FY2014	FY2009 to FY2014	FY2011 to FY2014
AFSM100 Incoming Secondary	-13%	-14%	-7%
SPBS/APBS Incoming	-17%	-2%	9%
APPS Incoming	-42%	-29%	-20%
FSS	n/a	n/a	-8%

a. Confirmed, assuming the question refers to the FY2007 to FY2014 change shown in the table.

b. Confirmed, assuming the question refers to the FY2007 to FY2014 change shown in the table.

c. Confirmed, assuming the question refers to the FY2007 to FY2014 change shown in the table.

d. Partly confirmed. The calculation shown in the question is correct. However, the FY2011 productivity in the table (from Docket No. RM2012-2, Proposal 16) excludes FSS data from NDCs, which are included in the FY2012-FY2014 productivity figures. The comparable FY2011 productivity—including FSS operations at NDCs—is 813 TPF/hour, resulting in a 6 percent productivity decline.

e. Several factors account for the observed productivity declines. The cited AFSM100, APBS/SPBS, and APPS operations have all seen significant declines in workload over the FY2007-FY2014 period, reflecting the declining volume trends for flat-shape mail. The process of reducing workhours in the face of declining volumes may involve lags, to whatever extent it may be reasonable to expect workhours and workloads to adjust proportionally over the long run.

For AFSM100 Incoming Secondary (IS), note that the productivity declined by a relatively modest 3 percent from FY2007 to FY2010 and has remained essentially unchanged from FY2012-FY2014. Thus, the cited productivity decline appears to be a shift corresponding with the implementation of FSS rather than a systematic decline. FSS can affect AFSM100 productivity through two main

channels. First, FSS substitutes for AFSM100 IS, and FSS zones typically have favorable volume characteristics (such as high volumes per run) for AFSM100 processing. The remaining AFSM100 IS runs may be shorter, and thus the workhours for "allied labor" activities such as setting up and conducting final sweeps of the equipment may be spread over a smaller volume, reducing productivity. Second, for FSS zones, parallel AFSM100 IS schemes are maintained to process FSS rejects; these will tend to be shorter, lower productivity runs than AFSM100 IS runs for non-FSS zones. Additionally, AFSM100 capacity may become available to provide automated IS processing for zones that previously were processed manually. Given limited automated IS capacity, those marginal zones may have had less favorable cost or productivity characteristics than automated IS zones pre-FSS. However, shifting IS processing from manual to automation may reduce costs even if it adversely affects AFSM100 IS productivity.

For APBS and SPBS, the data show that productivities have been little changed since FY2009 (a 2 percent decline), and have increased 9 percent since FY2011. The recent increase covers the period over which the SPBS equipment was converted to the APBS configuration. For both SPBS/APBS and APPS, a significant proportion of the operation time is spent in allied labor activities, such as dispatching pallet boxes and wiretainers of bundles from the equipment. Those hours will be spread over a smaller bundle workload as runs become shorter, tending to reduce productivity. Likewise, smaller runs on APPS may not proportionally reduce the machine complement over the operational windows.

For FSS, productivity on a comparable basis improved slightly from FY2011 to FY2012 (on a comparable basis, as discussed above in the response to part d), and has declined somewhat since FY2012. FSS workload peaked in FY2012 and subsequently declined in both FY2013 and FY2014, if less sharply than the other operations. The implied shorter runtimes from reduced volumes can adversely affect FSS productivity, since the FSS requires a 12 to 15 minute transition time between schemes, as well as transition time between the first and second sort passes.

10. Please provide the percentage of First-Class Mail Presort Letters/Postcards meeting Full Service Intelligent Mail requirements.

RESPONSE:

Of the 40.2 billion total Presort First-Class Mail Presort Letters/Postcards in FY2014, 79.9 percent (32.1 billion pieces) had Full Service IMb

12. Please refer to page 11 of Library Reference USPS-FY14-29.

a. Please discuss why limited data were available for measurement of service performance of Standard Mail Parcels.

b. Please discuss whether the Postal Service has a plan to increase the percentage of Standard Mail Parcels measured for service performance and, if applicable, explain such plan.

RESPONSE:

a. Limited data available for measurement of service performance of Standard Mail Parcels is the result of only 53 percent of all Standard Mail Parcels having a barcode on them in FY 2014. In addition, another 10-15 percent of pieces were not available for measurement of service performance because they lacked either a start-the-clock or stock-the-clock scan.

b. The Postal Service's DRIVE Initiatives, specifically World Class Package Platform and 100% Visibility, include strategies to barcode all parcels. As part of these strategies, we extended Intelligent Mail Package Barcode requirements to all parcel products, including Market Dominant products such as Standard Mail, Bound Printed Matter, Media Mail, and Library Mail parcels. Although the requirements were implemented and take full effect January 25, 2015, there is no price penalty for Market Dominant parcels that do not comply with requirements. Once we are able to add non-compliance fees to Market Dominant products we expect the barcode percentages to increase, which in turn will increase the volume eligible for measurement.

In addition, we added new features in our Product Tracking and Reporting System to calculate start the clock for destination entered packages based on the first scan at plants (for non-containerized packages) or post offices. The feature

was implemented for non-containerized packages at plants in Quarter 4, FY 2014 and will be implemented for packages entered at post offices Quarter2 FY 2015. This should also increase the volume of Market Dominant products being measured.

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13. Please explain why the percentage of mailpieces that fell into mixed product categories has decreased. *See* Library Reference USPS-FY14-29 at 12.

RESPONSE:

Starting in FY13 Q4, the Postal Service discontinued the use of the range-record format for mailer electronic documentation (eDoc), with the exception of eDocs submitted via Postal Wizard. The range-record format does not require mailers to specify the rate categories and piece counts for their mailings. When this information is missing for Standard Mail, the associated pieces are mapped to the generic Mixed Letters or Mixed Flats product groups. The piece-detail record format now utilized requires rate category information, thereby eliminating the automatic mapping of pieces with missing information to the generic Mixed Letters or Mixed Flats product groups. Consequently, the volume of mail mapped to the Mixed Letters and Mixed Flats products declined significantly after the change in FY13 Q4 and remained low throughout FY14.

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15. Please refer to page 21 of Library Reference USPS-FY14-29.

a. Please discuss why limited data were available for measurement of service performance of Bound Printed Matter (BPM) Parcels in FY 2014.

b. Please discuss whether the Postal Service has a plan to increase the percentage of BPM Parcels measured for service performance and, if applicable, explain such plan.

RESPONSE:

(a) Limited data available for measurement of service performance of Bound Printed Matter (BPM) Parcels is the result of some pieces not having a barcode on them in FY 2014. In addition, some pieces were not available for measurement of service performance because they lacked either a start-the-clock or stock-the-clock scan.

(b) The Postal Service's DRIVE Initiatives, specifically World Class Package Platform and 100% Visibility, include strategies to barcode all parcels. As part of these strategies, we extended Intelligent Mail Package Barcode requirements to all parcel products, including Market Dominant products such as Standard Mail, Bound Printed Matter, Media Mail, and Library Mail parcels. Although the requirements were implemented and take full effect January 25, 2015, there is no price penalty for Market Dominant parcels that do not comply with requirements. Once we are able to add non-compliance fees to Market Dominant products we expect the barcode percentages to increase, which in turn will increase the volume eligible for measurement.

In addition, we added new features in our Product Tracking and Reporting System to calculate start the clock for destination entered packages based on the

first scan at plants (for non-containerized packages) or post offices. The feature was implemented for non-containerized packages at plants in Quarter 4, FY 2014 and will be implemented for packages entered at post offices Quarter2 FY 2015. This should also increase the volume of Market Dominant products being measured.

16. The Postal Service provides avoided dropship costs for BPM Flats and BPM Parcels in Library Reference USPS-FY14-3, Excel file "FY14.3 Worksharing Discount Tables.xlsx," tabs "Bound Printed Matter Flats" and "Bound Printed Matter Parcels." The avoided costs from that file are shown below and appear to be partially based on FY 2013 data. In the attached Workbook No. 2, the Commission calculated avoided costs using the data provided in Library Reference USPS-FY14-15, Excel file "USPS-FY14-15.BPM.xlsx," tab "Summary," cells "C5, C6, C7." The updated data in the file are color coded. The chart below shows the avoided costs calculated by the Postal Service and the Commission.

Dropship (dollars/piece)	**Postal Service Avoided Cost**	**Commission Avoided Cost**
BPM Flats, Basic, Carrier Route DSCF	0.607	0.583
BPM Flats, Basic, Carrier Route DDU	0.776	0.751
BPM Parcels, Basic, Carrier Route DSCF	0.607	0.583
BPM Parcels, Basic, Carrier Route DDU	0.776	0.751

a. Please confirm the Commission calculations of avoided cost are correct. If not confirmed, please provide an explanation for the Postal Service avoided cost calculations.

b. If part a. is confirmed, please file a revised USPS-FY14-3, Excel file "FY14.3 Worksharing Discount Tables.xlsx," with updated avoided costs rounded to 3 digits and updated passthroughs for BPM Flats and BPM Parcels.

RESPONSE:

a. Confirmed

b. A revised spreadsheet, *RespChIR2Qu16.xls*, is being submitted with this response as part of USPS-FY14-44.

17. USPS-FY14-3 does not include data on the Destination Flat Sequence System workshare discounts for Standard Mail Flats, Carrier Route Flats, and High Density and Saturation Flats.

a. For these categories, please provide the FY 2014 discount, avoided costs and passthroughs.

b. If the passthroughs are above 100 percent, please provide an explanation for why this discount exceeds avoided costs and provide a statutory justification pursuant to 39 U.S.C. § 3622(e).

RESPONSE:

a. For all three of these categories, the FY2014 discount is $0.045 (using Exigent prices in MCS section 1225.6). The avoided cost is $0.058, and the passthrough is 77.6 percent (0.045/0.058). The avoided costs increased from $0.050 in Docket No. R2013-10, to $0.058. See USPS-FY14-13, USPS-FY14 13-STD.xlsx tab Summary, cell E47.

b. The passthroughs are below 100 percent.

18. Please refer to page 38 of the FY 2014 ACR, where it states "As shown in USPS-FY14-30, the net benefit of the Discover NSA for the contract year of April 2013 to March 2014 is estimated to be between $18.2 million and $23.1 million …. It is clear, then, that the Discover NSA improved the net financial position of the Postal Service."

a. Please confirm that Library Reference USPS-FY14-30 file "FY14.30.ACR_NSA.xls" tab "5_PRC Methodology" cell F34 shows that the total net value to the Postal Service of contract year 3 of the Discover NSA was negative $14,151,180 using the approved methodology. If not confirmed please explain.

b. If confirmed, please correct the FY 2014 ACR to reflect the approved methodology. Please include a revised discussion explaining whether the Discover NSA satisfies section 3622(c)(10)(A) and the Commission's rules.

RESPONSE:

a. Confirmed using the methodology specified.

b. Attached is a revised page 38 of the FY 2014 ACR.

rebate revenue of $15.8 million, and attributable costs of $11.2 million, resulting in attributable cost coverage of 141 percent. The volume-based agreement earned a rebate of approximately $175,000 during the July 2014 to September 2014 period. The Commission reviews NSAs from a contract year perspective, and it focuses on the net benefit of an NSA to the Postal Service. As shown in USPS-FY14-30, the net benefit of the Discover NSA estimated by the Postal Service for the contract year of April 2013 to March 2014 is between $18.2 million and $23.1 million.[15a] The corresponding net benefit of the Potpourri NSA cannot yet be evaluated on a contract-year basis, as the agreement has not been in effect for a full year.

It is clear, then, at least under the evaluation methodology relied upon by the Postal Service, that the Discover NSA improved the net financial position of the Postal Service, and it is hoped the Potpourri NSA will do likewise in the remaining quarters of the contract year. Furthermore, the Postal Service has no reason to believe that these NSAs caused unreasonable harm in the marketplace. The scale of the agreements were sufficiently small to make market effects unlikely, and similar functionally-equivalent NSAs could have been made available to similarly-situated mailers. Thus, based on the Postal Service's estimates, the Discover NSA and the Potpourri NSA satisfy section 3622(c)(10)(A) and the Commission's rules.

[15a] As also shown in USPS-FY14-30, however, using the Commission's preferred methodology, the effect of the Discover NSA on the Postal Service's net financial position over that period is estimated to be negative $14.2 million. Nevertheless, as explained previously, the Postal Service views its preferred net value estimation methodology as better suited than the Commission's for analysis of commercial corporate mailing activity. Please see the Postal Service Response to ChIR 1, Question 3.c, (Docket No. R2015-2, Nov. 13, 2014).

19. In the FY 2013 Annual Compliance Determination, the Commission directed the Postal Service to "provide in its FY 2014 ACR, a detailed analysis of the lessons learned from the DFS [Discover Financial Service] NSA." FY 2013 ACD at 68. The Commission stated "(s)pecifically, the Postal Service shall address: (1) how well the NSA achieved its goal of maintaining DFS's total contribution from First-Class Mail and Standard Mail; (2) how well the NSA achieved its goal of providing an incentive for growth in net contribution beyond that; (3) the lessons the Postal Service has learned regarding methods for staunching First-Class Mail volume declines; and (4) what efforts the Postal Service has made to develop a net value method with quantitative inputs." *Id.* at 68-69. Please provide this analysis.

RESPONSE:

(1 & 2) The prior Discover NSA (Docket No. R2011-3) achieved its goals of (1) maintaining DFS's total contribution from First-Class Mail and Standard Mail and (2) providing an incentive for growth in net contribution beyond that through the implementation of volume thresholds and incentive payments resulted in positive contribution over the three contract years as follows (based on Before Rate Volumes and Net of Rebates) as follows:

First-Class Mail $12.6M Standard Mail $58.3M Total $70.9M

(3) From this experience, the Postal Service deepened its understanding that First-Class Mail is highly affected by customer behavior in the acceptance of Electronic Statements from financial entities. Furthermore, given this knowledge, we realized that future NSAs should be structured to provide for overall net increases in contribution regardless of reaction to market conditions by any sub-product of a customer's mail volume.

(4) We are currently evaluating alternative Net Value methodologies.

20. In Docket No. ACR2013, in response to CHIR No. 7, question 4, the Postal Service provided a table showing the distribution of the FY 2013 mailing fees for Market Dominant mail categories. Please provide the FY 2014 Market Dominant mail fees distributed to the list of mail categories shown in Excel file "CHIR_No.2_Workbook No.3_.xls, tab worksheet 'MD Distribution.'" In doing so, please provide all underlying calculations and source workpapers.

RESPONSE:

Please see the material filed as part of USPS-FY14-44.

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21. In Docket No. ACR2013, in response to CHIR No. 7, question 5, the Postal Service provided a table showing the distribution of the FY 2013 mailing fees for Competitive Product mail categories. Please provide the FY 2014 Competitive Product mail fees distributed to the list of mail categories shown in Excel file "CHIR_No.2_Workbook No.3_.xls, tab worksheet "Competitive Distribution." In doing so, please provide all underlying calculations and source workpapers.

RESPONSE:

Please see the materials filed under seal as part of USPS-FY14-NP32.

22. On January 15, 2015, the Postal Service filed a Partial Supplemental Response to Order No. 2313. The following table contains Machine Throughput per hour data for the FSS, APBS and Automated Package Processing System (APPS) from pages 5 and 6 of Attachment A. The table also contains productivity data from the file Library Reference USPS-FY14-23.

Machine Throughput			
	2013	2104	Percent Change
FSS	8,985	8,746	-3%
APBS	3,825	4,113	8%
APPS	6,000	5,896	-2%
Productivity			
	2013	2014	Percent Change
FSS	798	766	-4%
APBS	232	219	-6%
APPS	350	319	-9%

a. Please explain the difference between Machine Throughput, as measured using WebEOR, and productivity as detailed in USPS-LR-23.

b. Please provide the Machine Throughput for FY 2013 and FY 2013 for the processing equipment listed in Library Reference USPS-FY14-23.

c. The APBS and APPS equipment are used to process both parcels and bundles of flat mail. Can the Postal Service identify the Machine Throughput of these machines for operations where only bundles of flats are being processed? If so, please provide the Machine Throughput of the APBS and APPS for sorting bundles only.

d. The APBS and APPS equipment are used to process both parcels and bundles of flat mail. Can the Postal Service identify the Machine Throughput of these machines for operations where only parcels are being processed? If so, please provide the Machine Throughput of the APBS and APPS for sorting parcels only.

e. What percentage of APBS operation time in FY 2014 was used for sorting parcels exclusively?

f. What percentage of APBS operation time in FY 2014 was used for sorting flat bundles exclusively?

g. What percentage of APPS operation time in FY 2014 was used for sorting parcels exclusively?

h. What percentage of APPS operation time in FY 2014 was used for sorting flat bundles exclusively?

i. In 2014, the Machine Throughput of the APBS increased by 8 percent, but the productivity of the APBS operation decreased by 6 percent. Please explain why the productivity declined as the throughput increased.

j. The measured productivity for each piece of flats sorting equipment declined in FY 2014 at rate greater than the change in Machine Throughput. Was this phenomenon ubiquitous for all processing equipment or isolated to equipment used to process flats?

RESPONSE:

a. Machine throughput measures the number of pieces processed per hour of machine runtime. Throughput rates are highly dependent on technical parameters of mail processing equipment, but also can be affected by other factors such as (but not limited to) the ability of operators to maintain a continuous flow of mail to the machines and to resolve issues such as jams. Productivity, as reported in USPS-FY14-23, measures the number of pieces processed per labor hour (work hour). The number of work hours in an operation, per hour of machine runtime, depends on a variety of factors. Typically, mail processing equipment has complements of two or more clerks and/or mail handlers that operate the machines. Additionally, work hours include overhead time (i.e., formal and informal breaks and personal needs time, clocking in or out) and "allied labor" activities (including, but not limited to, time spent setting up and taking down operations, obtaining mail from staging areas and dispatching processed mail, obtaining and labeling equipment).

Productivity and throughput changes do not need to move in tandem. For instance, adding staff to an operation may help maximize throughput, but at a cost to productivity if there are diminishing returns to the additional labor. However, some technological improvements (such as introducing automated feeders or sweepers) may improve both throughput and productivity. In general, though, productivity improvements do not necessarily imply throughput improvements or vice-versa.

b. Please see the excel workbook titled *CHIR2Q22b.xlsx* (in USPS-FY14-44) for the requested data.

c. The APBS and APPS productivities reported in USPS-FY14-23 (and the corresponding throughput statistics reported in the response to part b) are primarily for operations that process bundles of flat-shape pieces, and may be interpreted as the requested bundle throughputs. In particular, MODS operations for APBS and APPS in the APBS Priority cost pool are excluded from the APBS and APPS operation groups in USPS-FY14-23.

d. APBS and APPS operations that predominantly process parcels are mostly designated as Priority operations in MODS. Please see USPS-FY14-NP32 for the throughput statistics for those operations.

e. It is possible to identify MODS operations for APBS and APPS equipment that are primarily used to sort bundles or parcels. The excel workbook titled *CHIR2Q22e-h.xlsx* (in USPS-FY14-44) classifies the APBS and APPS operations at plants and NDCs accordingly, and computes the fractions of workhours (i.e., operation time) for each group. The data indicate that 51 percent of APBS workhours are in operations that primarily process parcels.

f. The data in *CHIR2Q22e-h.xlsx* indicate that 49 percent of APBS workhours are in operations that primarily process bundles.

g. The data in *CHIR2Q22e-h.xlsx* indicate that 62 percent of APPS workhours are in operations that primarily process parcels.

h. The data in *CHIR2Q22e-h.xlsx* indicate that 38 percent of APPS workhours are in operations that primarily process bundles.

i. As noted in the response to part (a), the relationship between machine throughput and operational productivity is not a direct one. The throughput numbers are an indicator of machine performance and reflect the total input (pieces fed) divided by the time the machine is running. In the case of operational productivity, the measure is the ratio of the pieces accepted/sorted by the machine divided by the total labor hours used to support the run. The increase in machine throughput for the APBS was driven by improvements in staffing on the machine, which supported an increase in the number of pieces that could be input to the belts per unit of run time. Improvements in staffing come at a cost in terms of labor hours needed to support the operation. The staffing improvements were necessary to process additional package volumes that were forecast for FY14.

In addition to the increase in staffing, there was a decrease in the number of pieces accepted/sorted by the machine. In general, we refer to the ratio of piece accepted versus pieces input as the acceptance rate. The drop in the acceptance rate was primarily driven by the increase in small packages from foreign countries that were difficult for the machine to read and sort. These packages were sent back to the keying workstation to be manually reintroduced to the machine for sorting.

The decrease in the acceptance rate coupled with the improvements to staffing resulted in the observed decoupling of the operational productivity and throughput.

j. As shown in the responses to parts b and d, the phenomenon of productivity declines in excess of throughput declines is neither ubiquitous across equipment types (in particular, DBCS operations in total showed a modest productivity improvement against essentially flat throughput) nor unique to flats operations.